

Message Text

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ORIGIN AGRE-00

INFO OCT-01 NEA-10 ISO-00 EUR-12 CIAE-00 COME-00 EB-08

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FM SECSTATE WASHDC

TO AMEMBASSY CAIRO

C O N F I D E N T I A L STATE 208855

E.O. 11652: GDS

TAGS: EAGR, EG

SUBJECT: EGYPT'S SUSPENSION OF COTTON SALES TO USSR AND
CZECHOSLOVAKIA

REF: CAIRO 13525 AND 13579

1. WE APPRECIATE YOUR TELEGRAMS REGARDING RECENT EGYPTIAN
ACTION CANCELLING THE SELLING OF COTTON TO SOVIET UNION.
FAS IS HANDICAPPED IN APPRAISING SITUATION BECAUSE OF NO
EGYPTIAN EXPORT DATA BEYOND MAY 1976.

2. THE 120,000-BALE FIGURE IS, OF COURSE, MODERATE IN
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RELATION TO EGYPT'S CONSUMPTION OF A MILLION BALES, TOTAL
EXPORTS OF SAY ONE MILLION, AND EVEN EXPORTS AUGUST/MAY
1975/76 OF 373,036 TO COMMUNIST COUNTRIES.

3. EC AND JAPAN IMPORT DATA SHOW UP TO TWICE AS MUCH
EGYPTIAN COTTON IMPORTED AS EGYPT SHOWS EXPORTED TO THESE
COUNTRIES IN 1974/75 AND 1975/76. THIS RAISES QUESTION

WHETHER ALL EGYPTIAN SALES TO NON-COMMUNIST COUNTRIES HAVE BEEN REFLECTED IN EGYPT'S EXPORT DATA, OR WHETHER EGYPTIAN COTTON HAS BEEN DIVERTED OR RESHIPED FROM ORIGINAL DESTINATIONS.

4. EGYPT'S EXPORTS TO PRC HAVE BEEN RISING. THEY TOTALLED 98,286 BALES IN AUGUST/MAY 1975/76 COMPARED TO 54,800 IN ALL 1974/75.

5. TEXTILE INDUSTRIES OF WORLD ARE GENERALLY IN STATE OF RECESSION. ANTICIPATED RECOVERY CONTINUES TO BE POSTPONED. THE COTTON SITUATION FOR THE MOMENT IS FAIRLY TIGHT BUT WILL EASE AS NEW, LARGER NORTHERN HEMISPHERE CROPS HIT MARKET IN ANOTHER MONTH OR TWO. THIS AND SLUGGISH DEMAND ALREADY REFLECTED IN PRICE DOWNTREND.

6. THE CURRENT NOMINAL CIF PRICE FOR EGYPTIAN COTTON OF AROUND 1.50 DOLS. PER POUND SEEMSHIGH IN RELATION TO CURRENT PRICE FOR SM 1-1/16 OF AROUND 63 CENTS CIF EUROPE AND FAR EAST AND POLYESTER PRICES IN VARIOUS MARKETS RANGING FROM 40 TO 63 CENTS. JUST WHAT NORMAL RELATIONSHIP WOULD BE IN A FREE MARKET, HOWEVER, IS IMPOSSIBLE TO SAY. THE PRICES OF EGYPTIAN AND SUDANESE COTTONS BOTH ARE SET BY BOARDS, SO NORMAL SUPPLY-DEMAND REASONING MAY NOT APPLY. WE WOULD BE SURPRISED IF EGYPTIAN ACTION HAD BEEN TAKEN WITHOUT CAREFUL APPRAISAL OF MARKET PROSPECTS THOUGH CONFIDENTIAL

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ACTION COULD HAVE BEEN PLANNED WHEN WORLD PRICES WERE HIGHER THAN AT PRESENT.

7. ICAC ESTIMATES SUPPLY OF EXTRA LONG STAPLE COTTON, 1-3/8 INCH AND OVER, IN NET EXPORTING COUNTRIES ONLY AT 2.1 MILLION BALES IN 1976/77 COMPARED TO 2.6 IN 1975/76 AND MORE IN EARLIER YEARS. WORLD NEEDS HAVE, OF COURSE, TRENDED DOWNWARD AS MAN-MADE FIBER HAS DISPLACED EXTRA LONG STAPLE COTTON IN TRADITIONAL USES. BEAR IN MIND THAT EGYPT ALSO PRODUCES LONG STAPLE COTTON, GENERALLY 1-1/8 INCH TO 1-3/8 INCH.

8. CONSIDERING POSSIBILITY OF INCREASED BARTER WITH PRC, DIRECT INSTEAD OF TRIANGULAR SALES TO WESTERN EUROPE AND JAPAN, AND INCREASED CONSUMPTION AT HOME, WE QUESTION WHETHER EGYPT'S 120,000 BALES WILL MAKE MUCH OF DENT IN MARKET. HOWEVER, IT MUST BE KEPT IN MIND THAT EXTRA LONG STAPLE COTTON IS USED FOR SPECIALIZED, LIMITED PURPOSES AND ANY SUBSTANTIAL INCREASE IN SUPPLIES COULD HAVE AN EFFECT ON PRICES. EGYPTIAN COTTON IS OF VERY HIGH QUALITY AND WOULD BE USED IN PREFERENCE TO OTHER GROWTHS IF PRICE WERE IN LINE. TIME WOULD BE REQUIRED FOR MILLS TO ADJUST.

9. A SOVIET PUBLICATION RECENTLY NOTED THAT QUOTE-IN 1977 THERE WILL BE A DECREASE IN THE VOLUME OF PROCESSING OF FINE FIBER COTTON IN (SOVIET) TEXTILE INDUSTRY-UNQUOTE. THE ARTICLE THEN NOTES SOVIET MINISTRIES AND RESEARCH INSTITUTES HAVE TAKEN TASK OF FINDING SUBSTITUTES, REPLACING COTTON WITH OTHER FIBERS INCLUDING CHEMICAL FIBERS. THE ARTICLE COMMENTS ON ADVANTAGES OF USING CHEMICAL FIBERS INSTEAD OF COTTON FOR TECHNICAL (PRE-SUMABLY INDUSTRIAL) REQUIREMENTS.

10. SOVIETS HAVE BEEN PRODUCING AROUND 900,000 BALES ANNUALLY OF FINE FIBERED COTTON IN RECENT YEARS. SOVIET COTTON IMPORTS FROM EGYPT DECLINED FROM 315,000 IN CONFIDENTIAL

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CY 1975 TO 160,000 IN CY 1976. THE USSR FOR MANY YEARS HAS BEEN A LARGE, NET EXPORTER OF COTTON BUT UNDOUBTEDLY HAS BEEN A NET IMPORTER OF LONG AND EXTRA LONG STAPLES. WHILE SOVIETS NO DOUBT WILL HAVE TO MAKE SOME ADJUSTMENTS IN THEIR OUTPUT OF HIGH STRENGTH, HIGH COUNT YARNS AND FABRICS, THIS WOULD NOT APPEAR TOO DIFFICULT. IN FACT, EGYPTIAN DECISION COULD FIT WITH SOVIET PLANS. CHRISTOPHER

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